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U.S. FARM CREDIT ADMINISTRATION
Cooperative Research and Service Division
Washington, D. C.

SUMMARY OF A STUDY
of the
ILLINOIS AGRICULTURAL MUTUAL
INSURANCE COMPANY

By
V. N. VALGREN

*Research, Service and
Educational Series*

Miscellaneous Report No. 22

February, 1940

INV. '60

Printed by
ILLINOIS AGRICULTURAL MUTUAL INSURANCE CO.
608 South Dearborn Street Chicago, Illinois

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JAN - 3 1941

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The Illinois Agricultural Mutual Insurance Company was incorporated in 1927 under a chapter of the insurance laws of Illinois officially described as: "An Act to provide for the organization and management of mutual insurance corporations, other than life." This particular law, which was placed on the Illinois statute books in 1915, is frequently referred to as the Uniform Mutual Law. It was drafted and sponsored by a group of general fire and casualty mutuals and was enacted in a score or more of States during a 10-year period beginning with or slightly prior to 1915.

ORIGIN AND PURPOSE

After careful study and consideration of the question of providing its members with automobile insurance in a company controlled and managed by or through the Illinois Agricultural Association, the board of directors of this association on September 6, 1926, voted unanimously in favor of organization. This action of the board was endorsed at a meeting of the presidents and farm advisors of the Illinois farm bureaus on October 8, 1926.

Articles of incorporation for the new company had been prepared and tentatively adopted prior to the October 8 meeting. These articles of incorporation were promptly submitted to the Division of Insurance of the Illinois Department of Trade and Commerce and were formally approved by the Department on October 14, 1926.

The Illinois law under which the company was incorporated contained, among other requirements, a provision that a company organized under it must have "admitted assets for each kind of insurance to be issued equal to at least 5 times the maximum single risk assumed." This meant, of course, that without reinsurance the company, in order to write automobile liability in the usual minimum amount—namely, \$5,000 for any one person and \$10,000 for any one accident—would be required to have admitted assets of \$50,000 before it issued its first policies. The law further provided that "any reinsurance taking effect simultaneously with the policy" might be allowed for in determining the maximum single risk. By arranging for reinsurance covering liability in excess of \$5,000 on any one person and also on any one accident, this particular requirement of the law was reduced to \$25,000 instead of \$50,000. Another provision of the law required, however, a minimum of \$10,000 in securities to be deposited with the Director of the Illinois Department of Trade and Commerce.

The problem of financing the new company, at least to the extent of meeting the legal requirements above indicated, was met by the following plan. Each applicant for automo-

ble insurance was required to advance, in addition to a policy fee of \$5 and a premium deposit of \$10, also a sum of \$10 toward the surplus of the company. The \$10 contribution to surplus, made by each applicant, was evidenced by an appropriate certificate designated as a "Surplus Share Certificate."

The policy fee of \$5 was intended to cover the cost of putting the insurance on the books. No membership fee was collected, apparently on the ground that only persons, corporations, and partnerships that were already members or affiliates of the Illinois Agricultural Association were eligible for insurance and for membership in the insurance company. The premium deposit was intended to cover the estimated cost of insurance for a 6-months' period, the actual charge against such deposit to be determined by the company's loss experience.

To put the above plan of initial financing into operation the company adopted a procedure as follows. Each applicant for insurance was required to give his undated check or checks for the amount of advances required of him. If his insurance was to go into effect promptly when the company was in a position to issue policies, he was asked to give a single undated check for \$25 covering policy fee, premium deposit, and contribution to surplus. This arrangement, presumably, applied to the applicants who either had no automobile insurance at the time or whose existing policies were about to expire. Those applicants, on the other hand, who desired their insurance to go into effect at a later date were requested to give 2 undated checks, one for \$15 covering the \$5 policy fee and the \$10 surplus share, and another covering the \$10 premium deposit.

All \$25 checks, covering the three items mentioned, were to be dated and cashed by the company as soon as the checks on hand represented a sum sufficient to qualify it for a license to begin actual insurance operations. At such time, all \$15 checks, covering policy fees and surplus shares, were also to be dated and cashed. The \$10 premium-deposit checks were not to be dated and cashed until the date specified in each application for the insurance to go into effect.

The company agreed to give 10 days' notice to each applicant prior to the cashing of his check or checks. The company also gave its promise to each applicant that his check or checks would be returned to him in case of failure to obtain a sufficient number of applications, with checks attached, to enable it to qualify for the necessary license to issue policies of insurance.

During the winter of 1926-27 the company, or more accurately the parent organization, the Illinois Agricultural Association, with the cooperation of the county farm bureaus carried on an intensive campaign for automobile insurance

applications in the new company. By early spring, a total of 3,290 applications were on hand with the required checks attached and the company was able to satisfy the financial requirements for a license to transact automobile insurance. This first official license of the company from the Division of Insurance, Illinois Department of Trade and Commerce, was issued April 7, 1927. This license authorized the company to write automobile insurance only.

By December 15, according to the 1927 Illinois Agricultural Association's Annual Report, the new company had practically doubled its initial membership, having at that date 6,446 members, representing 88 of the 101 counties in the State. Eight of these counties had already attained the first goal set by the company's organizers and promoters, namely, having a third or more of all farm bureau members in the county insured in the company.

MANAGEMENT

Although the Illinois Agricultural Mutual Insurance Company is by law a separate and independent nonstock corporation of which the policyholders as members are the legal owners, it is in effect managed and controlled by the Illinois Agricultural Association. The directors of this association have consistently been elected and have served as directors of the insurance company. Furthermore, as directors of the insurance company, they have, with few exceptions, elected to serve as president, vice president, secretary, and treasurer of the insurance company the persons who held corresponding positions in the Illinois Agricultural Association. The insurance company, therefore, has had and continues to have a management which in the final analysis is practically identical with the management of the parent organization.

The insurance company, it is true, has 19 directors, while the Illinois Agricultural Association has but 17 including its president and vice president. These two officers are elected to their respective positions at the annual meeting of the association and become ex officio members of the association's board of directors. The additional two positions on the board of the insurance company have been held by other officers of the Illinois Agricultural Association.

THE SERVICE COMPANY

Broader policy-determining questions are handled directly by the insurance company's board of directors or the company's officers elected by this board. Other problems and questions of management are handled by the board of directors of the Illinois Agricultural Service Company. The

service company has a board of 5 directors who, under established policy, have been the president, the field secretary, the treasurer, the comptroller, and the legal counsel of the Illinois Agricultural Association, each of whom is a full-time employee of the association. This service company also manages a number of other corporations affiliated with the association.

The powers and duties of the Illinois Agricultural Service Company in relation to the affairs of the Illinois Agricultural Mutual Insurance Company are embodied in a contract between the two companies which makes the service company, in effect, the corporate manager of the insurance company. The active personal manager of the insurance company is employed by and reports to the service company. The selection of this manager and the salary paid him are subject, however, to the approval of the board of directors of the insurance company.

The manager of the insurance company employs or recommends for employment all other necessary personnel of the company. Under this set-up, therefore, these other employees of the company report to the manager. The manager reports or is responsible to the Illinois Agricultural Service Company; the service company is responsible to the board of directors of the insurance company; and this board is essentially identical with that of the parent association, a brief description of which follows.

THE ILLINOIS AGRICULTURAL ASSOCIATION

The Illinois Agricultural Association is not a federation of the county farm bureaus of the State. Its real membership is not the county farm bureaus as such, but instead the individual farmers who also comprise the membership in the farm bureaus. In other words, each member of a county farm bureau in Illinois also has direct membership in the Illinois Agricultural Association. No one can become a member of an Illinois farm bureau without at the same time joining the Illinois Agricultural Association, nor can he become a member of that association without at the same time joining his local farm bureau. The membership dues in both organizations must be paid in advance. The present membership dues of the farm bureaus are \$10 and those of the Illinois Agricultural Association, \$5. The latter is a member of and helps support the American Farm Bureau Federation.

The annual meeting of the Illinois Agricultural Association differs in one significant respect from the corresponding meeting in most cooperative organizations. Although every member of the association is informed of the date and place of the meeting and is entitled to participate in its deliberations, the right to vote at this meeting is vested in delegates

from the association's membership in the various counties. The voting delegation from each county consists of the president of the county farm bureau, who is a delegate ex officio, and one or more delegates elected by the members of the Illinois Agricultural Association in the county. The total attendance at the annual meeting of the association, including delegates and individual members, has been in excess of 2,500 in recent years.

Regardless of whether a given county group sends one or more delegates to the annual meeting of the Illinois Agricultural Association, its delegation has as many votes as there are members in the county or farm bureau district, this number representing also the membership that the association has in the county or counties that the delegation represent. Most of the Illinois farm bureaus are restricted to a single county but a few cover two counties. Altogether the 96 so-called county farm bureaus include the entire State of Illinois with its 101 counties.

As already indicated, the board of the Illinois Agricultural Association consists of 17 directors, two of whom are directors ex officio as president and vice president respectively, and the other 15 are specifically elected as directors. The directors elected as such hold office for a term of 2 years. These 15 directors are divided into two groups, one consisting of 7 directors and the other of 8. Each year the term of office of one of these groups expires, resulting normally in the election of 7 directors one year and 8 the next. The president and vice president are elected for a term of 1 year only. Hence at each annual meeting a president, a vice president, and either 7 or 8 directors are elected.

The presidents of the various farm bureaus and the elected delegates from each county have all necessary expenses of subsistence and travel incurred in attending an annual meeting paid for by the association. The number of delegates elected to the annual meeting from each county is limited to one delegate for each 500 members or major fraction thereof. On all questions arising at the annual meeting, including the election of directors and certain officers, the delegates from each county are entitled to cast as many votes, jointly or divided equally among them, as there are members of the Illinois Agricultural Association in the county or farm bureau district.

This description of the Illinois Agricultural Association may seem like a digression, since this report deals with the Illinois Agricultural Mutual. The relationship of these two organizations is such, however, that the management of the insurance company can not be understood without some knowledge of the parent association.

INSURANCE COMPANY PROXIES

The Illinois Agricultural Mutual Insurance Company is, as stated, legally a distinct corporation. As in the case of other mutual insurance corporations, each policyholder is a member of the company and as such is entitled to a vote at its annual or special membership meetings. The bylaws of the company provide that a member may vote in person or by proxy. They further provide that 500 members present "in person or by proxy" at any meeting of members shall constitute a quorum.

Each applicant for insurance in the Illinois Agricultural Mutual is asked to execute a proxy form naming the board of directors of the Illinois Agricultural Association as his proxy. The execution of this form is not required, but a large majority of the applicants comply with the request.

The obtaining of these proxies from the applicants for insurance may appear to make the membership meetings of the company largely a matter of form, as is the case with many membership or stockholders' meetings of larger corporations with their members or stockholders widely scattered. The following facts, however, should be kept in mind in connection with the annual meeting and the proxy plan adhered to in the Illinois Agricultural Mutual.

The proxy form used by this company is not irrevocable. In fact, it is effective only at a meeting at which the member is not present "in person or by other proxy." Furthermore, it should be remembered that in the case of the Illinois Agricultural Mutual the member gives his proxy to the board of another organization of which he is himself a member, namely, the Illinois Agricultural Association. Hence, by giving this proxy and permitting it to be used he is not relinquishing his voice in the management of the insurance company. He retains the right to help select local delegates to the annual meeting of the Illinois Agricultural Association at which, among other matters, directors of said association are elected.

The annual meeting of the Illinois Agricultural Mutual Insurance Company is regularly held on the day preceding the annual meeting of the Illinois Agricultural Association. Hence, the annual meeting of the insurance company is usually attended by all the delegates to the annual meeting of the Illinois Agricultural Association, these delegates being with few if any exceptions members of the insurance company as well as of the association. Many other members of the company attend its annual meeting which normally has about a thousand members present.

The effective proxies held by the board of directors of the Illinois Agricultural Association have outnumbered, nevertheless, the members present at the annual meeting of the

insurance company. Hence, the directors could, if they so desired, disregard or overrule the wishes of the members present at this meeting on any question that arises. That they should do so is highly improbable, however, since the members of the insurance company who attend its annual meeting include the delegates who, on the following day, at the annual meeting of the Illinois Agricultural Association will elect directors and certain officers of this association.

The board of directors of the Illinois Agricultural Association considers as valid only those proxies signed by a member of the insurance company within the year immediately preceding a given meeting. As a matter of fact no proxies held by this board have as yet been voted at any membership meeting of the insurance company.

In summary it may be said that the policyholder and member of the Illinois Agricultural Mutual Insurance Company under the plan briefly described exercises his control of the insurance company indirectly through his voice or representation in the affairs of the Illinois Agricultural Association rather than directly as a member of the insurance company. This fact, together with other facts given, makes the proxy plan adopted and adhered to in this particular company quite different from the proxy plans that company officers have occasionally fostered in their own selfish interest.

DEVELOPMENTS IN AUTOMOBILE INSURANCE

The Illinois Agricultural Mutual Insurance Company, as stated, was at first licensed by the State of Illinois to write the various forms of automobile insurance only. From time to time, it has applied for and obtained licenses authorizing it to write certain other classes or kinds of casualty insurance. At present the company is authorized to write employers' liability insurance, livestock insurance, and accident insurance, as well as all recognized forms of automobile coverages. Its automobile insurance, however, remains by far the most important part of its business. Hence, the development of the company's automobile insurance merits special consideration before the other kinds of insurance are discussed.

Ever since the date of its first license, the company has offered all the more usual forms of automobile coverages, namely, fire and theft, collision, and public liability and property damage. The collision insurance was at first limited, however, to collision with moving objects. In 1928 collision insurance against stationary objects was offered as a separate coverage. In the same year the coverage usually referred to as "fire" was broadened to include insurance against "wind-storm, cyclone, and tornado." Hail was added to the hazards covered, either at the same time or shortly afterwards.

Fire and theft insurance, as well as collision insurance, protects the owner against loss of, or damage to, his automobile. Such insurance is, therefore, a form of property insurance. Public liability and property damage do not cover loss of property as such. They safeguard the owner and the authorized driver of the automobile against claims by others for personal injuries or for damage to their property when caused by the operation of the insured's automobile.

The term "public liability" may be said to be largely self-explanatory. The term "property damage" is more literally a technical term. It refers solely to damage caused by the insured's automobile to the property of others and not to any damage to the automobile or to any other property owned by the insured. In a sense at least it is the obverse of the term "collision" which, as already indicated, applies solely to damage occurring to the insured's automobile as a result of impact against moving or stationary objects.

Losses and indemnities under fire and theft, and collision, can not exceed the value of the automobile. To the claims arising out of personal injuries or damage to the property of others caused by an automobile, no limits can be determined in advance, although the insurance company can and does place a fixed limit on the claims against which it agrees to protect the insured.

The company has in general offered various automobile coverages in stipulated combinations or "classes of coverages" as it calls them. These combinations of coverages, on the basis of which policy fees and premium charges are determined, have been modified from time to time. Thus, in 1929, after the company had operated for 2 years, four combinations or classes of coverages were offered as follows:

- I. Fire, theft, windstorm and hail, collision, public liability and property damage.
- II. Same as I with collision omitted.
- III. Public liability and property damage.
- IV. Fire, theft, windstorm and hail.

The collision coverage in the above enumeration was limited to collision with moving objects. Collision with stationary objects if desired was added upon the payment of an additional charge.

PRESENT COVERAGE GROUPINGS

At present the company offers seven groupings or classes of coverage. These are enumerated below. The letter "A" following a class number signifies that it includes collision.

- Class 1A.* Fire, theft, public liability, property damage, and collision.
Class 2. Fire, theft, public liability and property damage.
Class 3. Public liability and property damage.
Class 4. Fire and theft.
Class 5A. Public liability, property damage, and collision.
Class 6A. Fire, theft, and collision.
Class 7A. Collision.

The company since November 1, 1939, writes only one form of collision insurance which covers collision with stationary as well as with moving objects. Numerous special concessions or extensions in the comprehensiveness of the protection afforded under the various coverages have been added as the need and the demand for them have become recognized. In fact, the company has kept well abreast with prevailing tendencies to improve the automobile insurance protection that it provides. In at least some instances, it has taken the lead in liberalizing its policies. Thus, for example, the public liability and property damage coverages offered by the company's policies now under normal circumstances protect the insured automobile owner, his spouse, and his dependents, not only when driving the car covered by the policy, but also when driving a borrowed private passenger automobile. The insurance automatically applies to any replacement car for a period of 10 days pending the transfer of the policy from the old car to the new one.

The coverage or coverages offered in each of the above classes, it may be noted, consists of groupings or separate listings of the three basic automobile coverages. These basic coverages, with the present policy fee charged for each, are as follows:

(a) Fire and theft	Policy fee	\$1.50
(b) Public liability and property damage	" "	3.50
(c) Collision	" "	3.00

Of the above primary basic coverages,

- Class 1A includes (a), (b), and (c)
 Class 2 includes (a) and (b)
 Class 3 includes (b) alone
 Class 4 includes (a) alone
 Class 5A includes (b) and (c)
 Class 6A includes (a) and (c)
 Class 7A includes (c) alone

The term "fire," as used in the above listing, automatically includes windstorm, hail, flood, transportation, earthquake, and explosion; and "theft" includes loss by theft of "securely attached equipment," such as radio, spare tires, tubes, rims, wheels, and heater.

The policy fee for each of these numbered classes is determined by the basic coverages included and, therefore, can be readily ascertained from the information just given. The premium charges with certain exceptions vary with the type and use, list price, and age of the motor vehicle. For a new pleasure car with a factory list price of less than \$750 the 6-months' rate is \$1.85 for fire and theft, \$4.80 for collision, and \$4.30 for \$5,000/\$10,000 public liability and property damage; making a total of \$10.95. A truck in the same price and age class, when used exclusively for farming purposes and not for hire, takes the same premium rate as the pleasure car. The company's rate for public liability and property damage, contrary to general practice, does not vary with list price of the motor vehicle. Such rate does vary with the "type" classification and, in the case of trucks, also with the load capacity. The company's classification recognizes 8 price groups, 3 age groups, and 5 type groups not including subgroups for trailers.

While no attempt will be made here to reproduce in full, or to discuss in detail, the company's entire present rate schedule, a condensed extract from this schedule may be presented as follows:

**Six-Months' Rates on New Pleasure Cars and Farm Trucks
By Basic Coverages and by Factory List Price**

<i>Factory list price</i>	<i>Fire and theft</i>	<i>Collision (80% coverage)</i>	<i>Public liability & property damage 1)</i>	<i>Full coverage</i>
0 to \$ 749	\$1.85	\$ 4.80	\$4.30	\$10.95
\$ 750 to \$ 999	2.55	6.50	4.30	13.35
\$1,000 to \$1,299	3.25	8.10	4.30	15.65
\$1,300 to \$1,599	3.95	9.75	4.30	18.00
\$1,600 to \$1,899	4.65	11.40	4.30	20.35
\$1,900 to \$2,199	5.35	13.05	4.30	22.70
\$2,200 to \$2,499	6.05	14.70	4.30	25.05
\$2,500 and over	6.75	16.30	4.30	27.35

1) \$5,000/\$10,000 public liability and \$5,000 property damage.

SURPLUS CONTRIBUTIONS AND DIVIDENDS

As already explained, the company at first required each applicant for automobile insurance to contribute or to advance \$10 toward the surplus of the company, such contribution being evidenced by a surplus share certificate. After 2 years of operation, the required surplus-share contribution was lowered to \$8 in the case of all applicants for class I and class II coverages; the former representing what the company then called full coverage, and the latter being full coverage with the exception of collision. In the case of applicants for class III or class IV coverages, which in 1929 meant respectively public liability and property damage only, or fire, theft,

windstorm, and hail only, the required surplus contribution was reduced to \$5.

These surplus share contributions continued to be required of all new applicants for insurance until early in 1933. At that time, owing to the severity of the economic depression, many prospective applicants for automobile insurance found it difficult to make the advance payments required and as a result the flow of new business was discouragingly small. The company by this time had built up a surplus in its treasury approaching half a million dollars, and in order to make it possible for practically all members of the Illinois Agricultural Association, who were not as yet members of the insurance company, to take out membership and obtain needed insurance, it was decided to revise radically the requirements covering initial charges for insurance. Hence, for applicants who so desired the surplus-share requirements were waived, and for all new applicants the premium-deposit requirements were materially modified. Only the policy-fee requirements were left unaltered.

In lieu of the former surplus-share requirement the company substituted, for those who so desired, what it called a surplus fee. Under this revised plan a new applicant for insurance was required to advance, in addition to the policy fees—namely, \$7 for class I and class II coverages, and \$5 for class III and class IV coverages—an amount equal to the estimated cost of his insurance for 6 months. To this estimated 6 months' cost of insurance there was added a surplus fee equal to 7 per cent of the difference between the advances required under the old surplus-share plan and those required under the revised plan.

This new charge or surplus fee amounted, in the case of farmers' automobiles and trucks, to sums varying from about 50 cents to \$1.50 or slightly more, depending on the coverages involved. These fees were intended in part to offset the interest earned and retained by the company on the surplus-share advances and premium deposits of earlier members, and in part to recognize the general contribution of these earlier members in having made the company's services available to the new members. Regardless of whether or not this surplus-fee plan was entirely logical and equitable in all respects, it enabled new members to obtain insurance with the initial charges or advances substantially reduced from those required under the earlier surplus-share plan.

In April, 1935, the surplus-fee plan was in turn abandoned. The company at that time adopted a cash premium plan, and its automobile insurance policies were made nonassessable. Under this cash premium plan, insurance continued to be written for a 6-months' period only. As had been the case since the company started, the policies were renewable for

additional 6-months' periods as long as the insured, at or before the expiration of his insurance, paid the required renewal premium.

With the adoption of this change in the premium plan, it was decided to refund all surplus-share contributions as well as all unused premium deposits. Such refunds were to be made to each member who was entitled to them, at the time of the first renewal date of his policy. Under this part of the plan, the company, during 1935, in effect refunded \$174,528 on surplus shares, and \$318,449.50 on premium deposits. In practice, as seems logical, the company, unless instructed to do otherwise, charged against the refund due each member an amount equal to such member's premium for the ensuing 6 months, and sent him a check for the difference.

At the time this cash premium plan went into effect, it was further decided that the company would inaugurate a deferred dividend plan under which each member would be entitled to a credit of 10 per cent in his semi-annual renewal premium after his policy had been in force $2\frac{1}{2}$ years. In other words, the stipulated dividend or premium-credit began with his sixth semi-annual premium. Three years later, namely, in 1938, the company decided that the 10 per cent dividend effective after a policy has been in force $2\frac{1}{2}$ years, should be doubled, or increased to 20 per cent, after a policy has been in force 5 years. Since no dividends are paid except as a credit on renewal premiums, these so-called dividends are in effect reductions in the premium rates after stipulated periods of membership.

Late in 1939 the company put into effect a slightly revised schedule of fixed premium rates and also a new policy form even more comprehensive as to the protection that it provides than the policy form that it superseded. The dividend plan as liberalized in 1938 continues to be in effect. Hence, all members whose insurance has been in force $2\frac{1}{2}$ to $4\frac{1}{2}$ years may have their policies renewed at a discount of 10 per cent, and all whose insurance has been in force 5 years or more may have their policies renewed at a discount of 20 per cent from existing premium rates. In theory the discounts are, of course, dividends applied in part payment of the renewal premiums, but no dividends or refunds of past premiums are made to anyone except in connection with policy renewals.

In connection with these dividends, it may be explained that the premium rates at present in force have been determined with a view to their being sufficient to provide for probable losses, as well as for all acquisition, operation, and management expenses, with about a 20 per cent safety margin. Hence, under normal loss experiences about 20 per cent of each full premium payment is added to surplus. The company has also adopted as an objective the maintenance of a surplus

equal to about 75 per cent of the annual premium income. This is roughly the recent ratio of these two items, the company's surplus as of the close of 1938 being \$1,021,526.98 and the premium income during said year being \$1,394,851.26.

To the extent that future loss and expense disbursements remain normal, or more specifically remain in line with the company's past experience upon which the existing schedule of rates and dividends are predicated, the surplus should tend either to remain at about 75 per cent of the annual premium income or to increase somewhat beyond this percentage. Each new member, under these conditions, will pay toward the surplus of the company during his first $2\frac{1}{2}$ years of membership an amount equal to 20 per cent of each of 5 semi-annual premiums, or 100 per cent of one semi-annual premium. During his second $2\frac{1}{2}$ years of membership he will pay toward the surplus an amount equal to 10 per cent of each of 5 semi-annual premiums, or 50 per cent of one semi-annual premium. This makes, of course, a total payment toward surplus on the part of a new member during his first 5 years of membership equal to 150 per cent of one semi-annual premium, or 75 per cent of a full annual premium. Beginning with the sixth year, or more specifically with the eleventh semi-annual premium payment, he no longer contributes toward the surplus of the company, since he now gets the full 20 per cent allowance in the premium rate as dividend, and pays only the 80 per cent of the rate. This 80 per cent, under the assumed normal conditions, will cover losses and expenses of the company.

The existing members have contributed in one way or another toward an existing surplus equal to 75 per cent of the annual premium income. Each added member is required to make a corresponding contribution before he is permitted to enjoy his insurance protection at normal net cost to the company.

Under the above conditions and assumptions, the present relationship of surplus to annual premium income should tend either to continue or gradually to increase. Only under a condition of geometric increase in membership, with little or no change in the composition of the membership, would the ratio of surplus to income show a decrease, and a permanent geometric increase in membership is, of course, inconceivable. A constant membership, without any change in its composition, would leave the ratio unchanged, but this condition again is inconceivable. Any change in the composition of the membership by existing members dropping out and others taking their places, and also any decrease in the total membership would tend toward an increase in the ratio. This follows from the fact that the retiring members take no surplus with them while their retirement subtracts from the income. Hence, the

ratio of surplus to income should show more or less increase in practically all years in which 80 per cent of the premium income is sufficient to cover all losses and expenses of the company. The company in addition to its premium income has, of course, also a net investment income, which has been ignored in this discussion of rates and dividends in relation to surplus.

No close comparison of the company's premium charges with the so-called manual rates will be attempted. The Illinois Insurance Department in the report of an examination of the company, in August, 1938, found that the company wrote its liability and property damage coverages and also its fire and theft coverages on automobiles, or at least on certain popular makes of cars, at a "30 per cent deviation from manual rates." No attempt was made by the Department's examiners to compare the collision rates of the company with the manual rates, since it has from the first provided in its policies that the insured himself bear 20 per cent of all collision losses. In other words, the company in the case of collision claims pays only 80 per cent of the ascertained loss. It is in the cost of collision, however, that the company has shown by far the greatest deviation or saving. No exact or simple comparison is possible since the Illinois Agricultural Mutual has uniform premium charges throughout the State and the manual rates even for farm territory vary with proximity to urban centers.

The growth of the company in volume of business, which hitherto has consisted primarily of automobile insurance, is indicated by the annual figures for income and disbursements as given in table 1.

Table 1. Income and Disbursements for Each Year Since Organization

Year	Income from all sources	Disbursements			Total
		Losses	Other		
1927	\$ 190,735.42	\$ 13,353.77	\$ 48,986.42	\$	62,340.19
1928	221,053.90	56,203.93	61,652.90		117,856.83
1929	388,429.05	82,993.67	116,525.51		199,519.18
1930	474,207.54	134,577.02	144,876.21		279,453.23
1931	509,784.02	158,101.42	170,033.42		328,134.84
1932	452,275.53	149,647.04	169,176.52		318,823.56
1933	451,340.21	171,642.28	203,105.03		374,747.31
1934	588,343.20	245,414.35	203,253.76		448,668.11
1935	1,054,658.70	345,015.46	¹⁾ 775,523.77		1,120,539.23
1936	1,104,682.52	477,190.76	336,336.77		813,527.53
1937	1,333,825.47	644,294.48	386,805.97		1,031,100.45
1938	1,457,020.24	691,740.24	450,803.63		1,142,543.87
1939	1,695,717.90	828,252.10	546,827.74		1,375,079.84

1) Includes \$2,256.58 reported as lost in closed banks; also refunds to members of \$318,449.50 on premium deposits and \$174,528.00 on surplus shares.

EMPLOYERS' LIABILITY INSURANCE

For the first 2 years of its active existence as an insurance organization, the company wrote automobile insurance only. Early in 1929, the first definite steps were taken toward the enlargement of the company's activity to include liability insurance for the members of the Illinois Agricultural Association. The need for such insurance appears by that time to have become quite widely recognized by the membership of said association as well as by its management which, as earlier pointed out, is substantially identical with the management of the Illinois Agricultural Mutual.

Farmers in Illinois as in most other States are exempted from the State law pertaining to workmen's compensation. Such exemption, however, does not relieve the farmer from common law liability for injury or death of employees unless it can be shown that the employer was in no way responsible for the accident. The absence of responsibility is frequently difficult to establish and the employer of a person who has been injured or killed may find himself confronted with a judgment in an amount that severely cripples if it does not ruin him financially.

Some companies that offer protection to farmers against the liability involved in possible accidents to their employees, insist that the farmer who applies for insurance must place himself under the workmen's compensation law in the State, which results in his being subject to stipulated damages in the case of injuries suffered by hired help in his employment. The Illinois Agricultural Mutual decided, however, to offer Illinois farmers insurance against employers' liability under common law rules. It was apparently believed by the managers of the company that employers' liability insurance could be provided more cheaply than could workmen's compensation insurance. This conclusion appears to have been correct, based on the experience of the company up to the present time.

Having decided to enlarge its scope of insurance activity to include employers' liability, the company made careful plans to provide assets or surplus in its proposed employers' liability department to satisfy State insurance requirements for the writing of such insurance. The law under which the company was organized and operated required that for the writing of insurance "against loss, expense and (or) liability by reason of bodily injury, death by accident, disability, sickness or disease suffered by employees for which the insured may be liable or have assumed liability," the following requirements must be met: It must have "assets of not less than twenty-five thousand (\$25,000) dollars and bona fide applica-

tions from not less than twenty (20) employers covering at least one thousand five hundred (1500) employees."

The company decided to meet the above financial requirements in the following manner: Each applicant for employers' liability insurance was required to advance \$10 for a so-called surplus share and in addition to make a premium deposit with the company of \$5 for each estimated 6-months' period or fraction thereof of anticipated hired labor during the ensuing year. The minimum premium deposit required was \$10. The applicant was further required to pay a policy fee of \$5. Hence, each applicant for employees' liability insurance was required to have attached to his application an undated check for a minimum amount of \$25. An additional \$5 premium deposit was required for each 6 months of anticipated hired labor during the ensuing year above the first such unit. The employers' liability policies, like the automobile insurance policies offered by the company, were to be issued for periods of 6 months only. At the end of each 6-months' period such policies might be extended to cover the ensuing 6 months by the payment of the semi-annual assessment levied by the company against the insured's premium deposit.

The company's policies of employers' liability insurance carry a contingent liability which is limited in any 6-months' period to twice the premium deposit for such period. No assessment has been levied against this contingent liability, and none of the other forms of insurance now written by the company are assessable.

The original plan just outlined has hitherto been adhered to by the company in the case of employers' liability insurance. Semi-annually the company has assessed and collected from the insured an assessment of 50 cents per month of hired labor for the preceding 6 months of insurance. In addition to the assessment intended to cover losses, the company has also collected semi-annually \$1.50 per policy for general overhead expense. A discount of 5 per cent on the semi-annual assessments has been granted each insured who within 30 days after each 6-months' period has sent in his assessment together with his semi-annual report covering actual employment during the period. This employment report is required to be furnished the company on a special form provided for the purpose.

In the event the insured's statement of actual employment during the preceding 6 months shows less employment than that anticipated at the beginning of the period for which he has paid the semi-annual assessment, the excess payment is credited on his next assessment. If such a comparison of actual employment with previously estimated employment indicates a deficit in the assessment paid by the insured, the

amount of such deficit is added to his next semi-annual assessment.

Under this plan, as announced by the company early in 1929, applications were solicited for employers' liability insurance. Eligibility for such insurance was made the same as for automobile insurance, namely, membership in the Illinois Agricultural Association or, in the case of corporations and associations, close affiliation with the Illinois Agricultural Association if not actual membership.

By the end of August, 1929, the company had on hand sufficient applications for employers' liability insurance, as well as sufficient assets in this new department, to qualify it for writing such insurance. Its first license to carry on this form of insurance business was dated August 31, 1929, and the company promptly issued its first employers' liability policies as of the same date. These initial policies numbered 929 and the checks that had been attached to the applications for this insurance amounted to \$30,512.50.

The company's employers' liability business has shown a consistent growth to the present time although the increase in this insurance has been less striking than the increase in the company's automobile insurance. Table 2 gives the number of employers' liability policies in force at the end of each year of business, and also the premium income and the losses for each year.

Table 2. Employers' Liability Insurance, 1930-39

<i>Year</i>	<i>Number of policies at end of year</i>	<i>Net premiums 1)</i>	<i>Net losses paid</i>
1930	1,323	\$15,577.21	\$2,349.97
1931	1,195	12,786.95	2,601.50
1932	1,212	10,576.12	3,044.75
1933	1,202	10,749.19	4,145.11
1934	1,363	13,483.45	2,914.52
1935	1,720	18,803.26	5,388.42
1936	2,051	22,344.78	6,379.28
1937	2,531	27,995.94	7,425.13
1938	2,850	31,002.55	10,675.90
1939	3,242	35,437.65	10,264.21

1) Policy fees are not included.

LIVESTOCK INSURANCE

The Illinois Agricultural Mutual added livestock insurance to its program in 1935. License or authority to write such insurance was obtained from the State on August 1 of that year. The company has as yet limited its livestock insurance to calves owned by 4-H Club members. This insurance is handled in very close cooperation with the Illinois farm bureaus.

Any affiliated farm bureau may apply for 4-H Club calf

insurance in behalf of members of this club in the county on a form provided by the company. This form gives the name and address of each 4-H Club member whose calf is to be insured, a description of each animal to be covered by this insurance, the amount of the insurance on each animal, and other pertinent information. Upon receipt and approval of the application by the home office, a master or schedule policy is issued to the farm bureau. Certificates under this master policy are issued to each 4-H Club member whose animal is covered.

The insurance covers the loss of calves from essentially every cause that is beyond reasonable control of the owner. The limit of such insurance on any one animal is the actual purchase price, if purchased, and such insurance may in no case exceed \$100. The cost of this insurance is 6 per cent of the amount of insurance stipulated in the policy and the certificate. Insurance on these calves is usually written during the months of September to December. The policies and certificates thereunder expire on December 31 of the following year. Insurance on calves taken out after the first of July for the remainder of the year calls for a premium of only 3 per cent instead of 6 per cent.

The policy provides for an increase in the company's liability on each insured calf at a rate of 10 per cent of the original insurance per month for each policy month up to and including 6 months. As a result of this arrangement, the actual premium rate is substantially less than 6 per cent. Only if an animal dies during the first month the insurance is in effect will the company's liability be limited to the principal sum to which the premium rate was applied. The loss of an insured animal at any time after the first month calls for indemnity greater in amount than the sum on which the premium rate was based. In fact, the loss of a calf in the seventh month of the policy or later will call for an indemnity equal to 60 per cent more than the insurance stipulated in the master policy and the certificate.

A farm bureau which arranges for the purchase of calves to be shipped in and distributed to 4-H Club members can protect itself against loss from the time it acquires title to the animals. Upon wiring the insurance company of its intention to ship in animals for the purpose in question, the farm bureau is promptly given a binder covering the purchased animals. This binder continues in force for 10 days, during which period it is expected that the calves will be distributed among individual 4-H Club members. The cost of this binder insurance is 75 cents for each calf covered. Upon insurance being taken out and paid for by the 4-H Club members to whom the calves are sold, the farm bureau is credited with

75 cents for each animal actually insured under the master policy. Thus, if all calves covered by the binder are taken over and insured by 4-H Club members and the required premium is paid on such insurance, the farm bureau is credited with the entire cost of its binder insurance.

Numerous minor details and provisions are necessarily involved in conducting this insurance and in safeguarding the company against a possible moral hazard. The master policy and the individual certificates thereunder can be cancelled at any time either by the company or by the insured. The cancellation of one or more certificates under the master policy affects in no way the insurance under other certificates which have not been cancelled.

The number of policies, or more accurately the number of certificates, on calves of 4-H Club members, and also the premiums and losses for each year since this business was begun is shown in table 3 below.

Table 3. Livestock Insurance, 1934-39

<i>Year</i>	<i>Number of policies</i>	<i>Premiums</i>	<i>Losses</i>
1934	1,134	\$1,998.78	\$1,217.59
1935	1,210	3,901.35	1,298.71
1936	1,833	4,449.06	1,918.35
1937	1,705	5,577.30	2,514.59
1938	1,896	5,216.26	2,349.77
1939	1,872	5,945.44	3,774.15

ACCIDENT INSURANCE

Early in 1939 the company decided further to enlarge the scope of its activity by providing accident insurance for the members of the Illinois Agricultural Association who desired such protection. The first policies providing such protection were issued as of April 1, 1939, and by the end of November the company had more than a thousand accident insurance policies in force.

Two different forms of accident policies are offered by the company: one providing reimbursement of 80% of the medical and hospital expense in addition to stipulated indemnities for designated bodily injuries and the other covering in addition to medical and hospital expense reimbursement and stipulated indemnities for bodily injuries also indemnity for loss of time occasioned by accidental injury. The maximum amount payable under the policy for medical expense reimbursement is \$500.00. About 50 per cent of those who applied for accident insurance during the first 7 months of the company's experience in this field, applied for and were granted also insurance against loss of time due to accidental injuries.

The stipulated indemnities for accidental bodily injuries are set forth in a schedule contained in the policy as follows:

For loss of—

- (a) Life\$500
- (b) Both hands or both feet or sight of both eyes \$500
- (c) One hand and one foot\$500
- (d) Either hand or foot and sight of one eye\$500
- (e) Either hand or foot\$250
- (f) Sight of one eye\$150
- (g) Thumb and index finger of either hand\$ 50

Weekly indemnity for loss of time occasioned by accidental injuries is sold in units of \$7 per week. Under this plan an individual who carries one unit of indemnity for loss of time is paid \$7 per week, as long as he is wholly and continuously disabled as the result of an accident from performing any and all duties pertaining to his occupation, for a period not exceeding 1 year. If his disability is such he cannot do any work in any occupation his benefits continue for an additional period not to exceed 2 years. For partial disability resulting from accidents and preventing the insured from performing part but not all duties pertaining to his occupation the company agrees to pay one-half of the weekly indemnity called for in the case of total disability, for a period not exceeding 26 consecutive weeks. The combined total and partial disability payments may not continue for a period of more than 3 years as the result of any one injury.

In addition to the benefits above indicated, the company agrees, in case of accidental injuries that make the injured physically unable to communicate with relatives or friends, to defray the expenses necessary to transmit information concerning the insured to his relatives and friends up to an amount not exceeding \$50. The policies of the company contain the usual provision found in accident policies. They include liability for accidental injuries or death sustained while riding as a passenger in an airplane or dirigible operated by licensed pilots on established passenger routes.

The company writes its accident insurance under the rules established by the Health and Accident Underwriters Conference. It uses a set of rates, however, that have been worked up by and for the company. Its accident policies are non-assessable. They provide on the other hand that the insured shall share in any dividends on the accident business of the company that may be declared by the board of directors. Since this form of insurance was undertaken by the company only a relatively few months ago, no dividends had as yet been declared at the time of this report.

The annual premium for accident insurance, without any loss-of-time indemnity being included, is \$13.75 per year for class A insured. Class A includes all persons engaged in ordinary farming operations. Lower as well as higher rates are quoted for persons engaged in occupations that are either less hazardous or more hazardous than ordinary farming.

The cost for one unit of loss-of-time indemnity, namely \$7 per week, for class A insured is \$7.30 per year. Two or three such units may be obtained at two or three times, respectively, the cost of one unit. The amount of such indemnity insurance that may be purchased by an individual may not exceed his average weekly income from his occupation, and may not be sold to any one who does not have such an income.

Up to December 31, 1939, the company had written 1,018 personal accident policies with a total premium of \$16,581.04, and had paid losses amounting to \$1,537.76.

The Illinois Agricultural Association maintains a Safety Department, which has been in operation for about 5 years. The Illinois Agricultural Mutual contributes to the support of this department on a basis intended to reflect its share of the benefits from this safety program. This is in line with a general policy of the management of the Illinois Agricultural Association which contemplates that each affiliated corporation shall be self-sustaining and shall contribute toward any jointly maintained services only in the proportion that each draws upon or benefits from such services.

The Safety Department carries on an educational campaign among members of the Illinois Agricultural Association directed toward the avoidance of accidents and the promotion of safety on the highways as well as on the farm. Its highway-safety program includes the promotion of an annual skilled-drivers' contest. Its farm-safety activities include the preparation of monthly and annual summaries of accidents on Illinois farms on the basis of information obtained from clipping bureaus. The accident data thus obtained are tabulated by cause of accident as well as by degree of injury suffered.

The latter classification comprises temporary injury, permanent injury, permanent disability, and death. The causes of accidents are listed in the stub of the report form under appropriate groups and with numerous subgroups. Thus, under the grouping "tractor accidents" are listed "dismounting in motion," "falling off," "kicked," "overturned," "refueling," "others." Each vertical column for listing the type or degree of injury from the enumerated causes contains three subcolumns headed "M," "W," "C," indicating men, women, and children, respectively.

For the year 1938 this Safety Department's summary showed total Illinois farm accidents as follows: Temporary injury—1,840 men, 171 women, 282 children; permanent injury—147 men, 4 women, 11 children; permanent disability—33 men; death—167 men, 18 women, 58 children.

These farm accident tables, or charts as they are called, emphasize strongly the need for accident insurance on the part of farmers as well as for education in safety on the farm and for promotion of practical safety devices. Farming has

always been, and is today, a relatively hazardous occupation by reason of the variety of tools and machinery employed and the animals handled.

Out of 5 classifications of employment recognized in the rating scheduled of the Health and Accident Underwriters Conference, beginning with the class of least hazardous occupations and ending with the class of most hazardous, ordinary farm work comes in the third class. The fourth class includes farmers doing custom work such as threshing, corn shredding, and similar work; industrial workers using heavy machinery; and persons engaged in other occupations of similar hazard.

Persons employed in occupations placed in the fifth and last class which includes among others, workers engaged in making or handling explosives, professional athletes, and participants in racing, are not considered insurable under the rules adhered to by the company. This fifth classification is used by the company only for the purpose of adjusting claims in case an insured, who at the time of obtaining his insurance was placed in the fourth or in another less hazardous class, should temporarily be employed in an occupation coming under the fifth classification and should present claim for injury while thus engaged. When this happens the company prorates or reduces the indemnity in such proportion as the premium paid by the insured is to the premium that would have been required for the fifth classification had the company insured the claimant in that class.

DEPARTMENTAL ORGANIZATION AND OPERATION

The insurance operations of the company, under the supervision of the manager, are carried on through four major departments. This departmental set-up reflects in the main four primary functions of the company, as follows:

- (1) To acquire new business and service outstanding business.
- (2) To examine and pass upon applications for insurance.
- (3) To adjust and pay loss claims.
- (4) To maintain insurance records and to provide statistical and accounting information.

The four departments are here referred to respectively as the Acquisition Department, the Underwriting Department, the Claims Department, and the Statistics and Accounts Department.

ACQUISITION DEPARTMENT

The company issues policies of insurance only upon formal application signed by the applicant. All policies are issued from the home office of the company in Chicago.

The taking of applications for insurance, or what may be termed the agency work for the company, is in charge of a department known as the Insurance Service Department which was set up by the Illinois Agricultural Service Company to carry on a joint acquisition program for the Illinois Agricultural Mutual and two other insurance companies affiliated with the Illinois Agricultural Association, namely, the Farmers' Mutual Reinsurance Company and the Country Life Insurance Company. The director of this department, in his relationship to the Illinois Agricultural Mutual, is known as sales director. He and his assistants in the Insurance Service Department, under the supervision of the company's manager, appoint and direct the sales force, keep production records, provide publicity material and agents' supplies, and see that all agents employed are duly licensed by the State Insurance Department.

The Insurance Service Department employs four fieldmen, each servicing one of the four districts into which the State is divided for this purpose. A general agent is appointed in each county or farm bureau district. A few of the Illinois farm bureaus, it should be recalled, embrace more than one county. For convenience, these exceptions are usually ignored in the company's literature and reports, each farm bureau district being referred to as a county.

Each general agent has working with him, or under him, a number of special agents. The number of special agents in a county varies from two or three to a dozen or more. Some of the special agents give their full time to the solicitation of applications for insurance in the three companies that they represent. Others give only part of their time to this work.

The Illinois county farm bureaus cooperate with the Insurance Service Department and the general and special agents of the companies in this insurance sales and service program. This cooperation is the subject of a contract between the farm bureaus and the insurance companies. The contract between the Illinois Agricultural Mutual, which is the subject of this study, and each of the county farm bureaus provides among other matters that the farm bureau shall: "furnish in its home office all the facilities and clerical service necessary to accommodate the general agent in carrying on the acquisition of casualty insurance for Company and servicing of Company's policyholders within the territory of the Farm Bureau." The farm bureau also agrees to assist the company and its general and special agents in a number of ways, more particularly in publicity and educational work. It is not permitted, however, to solicit, negotiate, or effect any application for a contract of insurance with the company, or to interfere in any way with the company's conduct of its business.

The company on its part agrees to employ no general or

special agent in the county without the recommendation or endorsement of the farm bureau. The company further agrees to compensate the farm bureau for its facilities and services in connection with the acquisition of insurance business in the county in accordance with a stipulated schedule.

The four fieldmen are employed on a salary basis. They are also paid certain bonuses for stipulated volumes of business from their respective districts. The schedules of compensation to the farm bureaus, to the general agent in each county, and to the special agents working under the general agents, are as follows:

The Local Farm Bureau

Automobile Insurance

New business: $7\frac{1}{2}\%$ of policy fee.

Renewals: $12\frac{1}{2}$ cents for each policy renewed.

Employers' Liability Insurance

New business: 10% of policy fee.

Renewals: $12\frac{1}{2}$ cents for each policy renewed.

Livestock Insurance

5% of premium collected (policies not renewed).

Accident Insurance

2% of premium collected on new and also on renewed business.

The General Agent

Automobile Insurance

New business:

(a) written by himself—60% of policy fee.

(b) written by Special Agent— $7\frac{1}{2}\%$ of policy fee.

Renewals: $12\frac{1}{2}$ cents for each policy renewed.

Employers' Liability Insurance

New business:

(a) written by himself—80% of policy fee.

(b) written by Special Agent—10% of policy fee.

Renewals: $12\frac{1}{2}$ cents for each policy renewed.

Livestock Insurance

15% of premium collected (policies not renewed).

Accident Insurance

New business:

(a) written by himself—20% of premium collected.

(b) written by Spec. Agent—5% of premium collected.

Renewals:

(a) written by himself— $7\frac{1}{2}\%$ of premium collected.

(b) written by Spec. Agent— $2\frac{1}{2}\%$ of prem. collected.

The Special Agent

Automobile Insurance

New business: 60% of policy fee (no renewal commissions)

Employers' Liability Insurance

New business: 80% of policy fee (no renewal commissions)

Accident Insurance

New business: 15% of premium collected.

Renewals: 5% of premium collected on each renewal of a policy originally written by him; such renewal commission to be paid only upon attainment of reasonable quota.

Renewals in the case of automobile and employers' liability insurance come semi-annually. Hence, the farm bureaus and the general agents, according to the schedule, each get 25 cents per year for each policy under these coverages that continues in force in their respective territories.

All livestock insurance is new business each year, and there is no policy fee for this insurance but only a flat premium. Hence, the compensation for the acquisition of business is in terms of the premium collected.

On accident insurance, there is again no policy fee but only an annual premium. On this class of insurance the compensation for acquisition of business is in terms of the premium collected both for new business and for annual renewals.

As of November 1, 1939, the Illinois Agricultural Mutual had 575 licensed agents of whom 96 were full-time general agents. The others were special agents, most of whom gave only part time to their duties as agents. These agents also represented the Farmers' Mutual Reinsurance Company and the Country Life Insurance Company, each of which is controlled on one plan or another by the Illinois Agricultural Association.

UNDERWRITING DEPARTMENT

The Underwriting problems of the company, according to the superintendent or manager of this department, are relatively simple compared to the underwriting problems of most insurance companies. Only actual members or affiliates of the Illinois Agricultural Association are eligible for insurance and membership in the Illinois Agricultural Mutual. During the year 1938, for example, only 79 applications for insurance were rejected. Of these, 30 were rejected because the applications for one reason or another were found ineligible under the membership rules of the Illinois Agricultural Asso-

ciation. Six were rejected because they were beyond the territorial limitations of the Illinois Agricultural Mutual, 12 because they were considered undesirable risks, and 31 for miscellaneous reasons. A total of 11,921 applications for insurance passed through the Underwriting Department in 1938. Therefore, the applications that it was found necessary to reject constituted only a fractional percentage of the total applications for membership in the company.

In addition to determining the eligibility of applicants, the Underwriting Department also checks the amount of the required premium and the correctness of the payment tendered for this premium. All new policies of the company are prepared and issued by this department. It also looks after the transfer of automobile policies to replacement cars and prepares and issues other necessary endorsements for outstanding policies. Policies are mailed directly to the applicants with an appropriate transmittal letter.

The number of persons employed in the Underwriting Department of the company varies from time to time. During at least a part of 1939, the department had 18 employees.

CLAIMS DEPARTMENT

The Claims Department of the Illinois Agricultural Mutual is headed by a superintendent. Nine of the persons employed are field adjusters, each having charge of one of the nine districts into which the State of Illinois is divided for this purpose. The others are considered home office employees, although some of them may spend considerable time in the field assisting with adjustment problems. Claims arising in States relatively near the home office are generally handled directly by the home office personnel. Although the company operates only in the State of Illinois, it is, of course, characteristic of automobile insurance, which constitutes the major business of the company, that the policyholders and the automobiles which are the subject of the insurance, by no means always remain in the State.

During the first 9 months of 1939, the company's claim department handled a total of about 30,000 claims. Of these claims, 962 arose outside the State of Illinois. During 1938, the company reports settling claims in 41 States, the District of Columbia, and 4 provinces of the Dominion of Canada.

Claims arising at a distance from the home office are referred to local adjustment bureaus or, in the case of liability claims, often to individual local attorneys. The Claims Department maintains lists of available adjustment bureaus and also lists of available attorneys with experience in handling liability claims in practically all parts of the United States and Canada.

The Claims Department of the company consisted, at a recent date, of 32 employees including the superintendent.

STATISTICS AND ACCOUNTS DEPARTMENT

Exceptionally complete statistical records are maintained by the company. Hollerith tabulating cards and sorting machines are employed in maintaining and working up the insurance experience of the company. This experience as to losses, in the case of automobile insurance, is compiled and analyzed by factory list price of insured cars, as well as by kinds of coverages (public liability, property damage, collision, fire, theft, etc.). The loss experience is also summarized and tabulated by classes of vehicles (pleasure cars, farm trucks, house trailers, farm trailers, etc.). It is perhaps needless to say that analyses of this nature ramify into complex series of tables. These tables are expected to show, for example, not only the loss experience of the company for vehicles of a given list-price range, but also the experience on each class of coverage on each class of vehicle in each list-price range.

Table 4 shows, for the close of each year since the company began business, the number of policies in force by kinds or classes of insurance. Table 5 which follows table 4 shows, as of December 31 for each year of the company's history, the assets, liabilities, and surplus. These tables, as well as other facts presented, evidence the substantial and healthy growth that the company has experienced.

**Table 4. Number of Policies in Force December 31
Each Year Since Organization**

<i>Year</i>	<i>Automobile</i>	<i>Employers' Liability</i>	<i>Livestock 1)</i>	<i>Accident</i>	<i>Total</i>
1927	6,423	—	—	—	6,423
1928	10,653	—	—	—	10,653
1929	18,059	—	—	—	18,059
1930	23,608	1,323	—	—	24,931
1931	27,520	1,195	—	—	28,715
1932	28,503	1,212	—	—	29,715
1933	31,790	1,202	—	—	32,992
1934	38,127	1,363	1,134	—	40,624
1935	45,056	1,720	1,210	—	47,986
1936	51,807	2,051	1,833	—	55,691
1937	60,378	2,531	1,705	—	64,614
1938	65,899	2,850	1,896	—	70,645
1939	74,799	3,242	1,872	1,018	80,931

1) Livestock policies issued during year.

Table 5. Assets, Liabilities, and Surplus as of December 31 of Each Year Since Organization

Year	<i>Liabilities</i>				Policyholders' surplus
	<i>Admitted assets</i>	<i>Unearned premium</i>	<i>Other 1)</i>	<i>Total</i>	
1927	\$ 129,551.07	\$ 45,412.13	\$ 16,565.48	\$ 61,977.61	\$ 67,573.46
1928	229,296.25	80,592.10	23,865.74	104,457.84	124,838.41
1929	423,420.61	154,369.22	73,075.61	227,444.83	195,975.78
1930	615,760.99	228,094.78	99,129.01	327,223.79	288,527.20
1931	800,787.09	279,105.61	163,026.30	442,131.91	358,655.17
1932	934,193.49	283,836.82	189,781.08	473,617.90	460,575.59
1933	990,794.49	283,906.55	220,170.06	504,076.61	486,717.88
1934	1,148,733.84	296,325.73	274,769.36	571,095.09	577,638.75
1935	1,086,077.29	239,234.57	373,123.20	612,357.77	2) 473,719.52
1936	1,381,780.11	300,664.83	422,241.88	722,906.71	658,873.40
1937	1,684,993.20	355,312.00	514,737.81	870,049.81	814,943.49
1938	2,000,444.04	397,065.21	581,851.85	978,917.06	1,021,526.98
1939	2,321,152.68	469,888.14	707,758.98	1,177,647.12	1,143,505.56

1) Includes reserve for unpaid claims; estimated expense for investigation and adjustment of unpaid claims; commissions, brokerage and other charges due or to become due; salaries, rents, etc. due or accrued; reserve for unpaid checks, unpaid reinsurance, etc.

2) Decrease in surplus explained by extraordinary disbursements during the year in the form of refunds to members of premium deposits and "surplus share" contributions.

RETENTION AND REINSURANCE

At the time the company issued its first automobile insurance policies, it had a simple and rather limited reinsurance arrangement. The reinsurance applied only to public liability. On each such coverage of \$5,000/\$10,000 the company retained \$5,000/\$5,000 which means that it would bear alone any loss not exceeding \$5,000 resulting from injury to any one person, and also any loss not exceeding \$5,000 resulting from injury to two or more persons in a single accident. Should a loss involving two or more persons in a single accident exceed \$5,000, the reinsurer was liable for such excess up to a maximum of \$5,000.

The above situation is technically described by saying that the company on its \$5,000/\$10,000 public liability coverages was reinsured 0/\$5,000 over its retention of \$5,000/\$5,000. Its other automobile coverages, namely, \$5,000 property damage, fire and theft up to the value of the insured car, and collision insurance up to 80 per cent of the value of the car, the company carried at its own risk.

In May, 1927, the company increased its public liability insurance to \$20,000/\$40,000 in excess of \$5,000/\$5,000. This enabled it, of course, to write materially higher limits of public liability than was possible under its first reinsurance contract. For a time the company also carried a catastrophe reinsurance contract covering losses from fire and wind in excess of \$25,000 during any 24 hours.

At present the company carries reinsurance on automobile

public liability coverages only, this reinsurance being \$45,000/\$90,000 in excess of \$5,000/\$10,000. This means, of course, that the company can now write public liability coverages as high as \$50,000/\$100,000 without exposing itself to loss from a single accident in an amount exceeding \$10,000, and this amount of net loss can be reached only if two or more persons are involved in a single automobile accident.

The company's employers' liability policies provide for a limit to the company's liability of \$5,000 on a claim for injury by any one person and \$10,000 on any one accident. This liability of \$5,000/\$10,000, which is the same as the company's retention on public liability coverages in its automobile policies, the company carries at its own risk. Similarly, all liability under its personal accident policies as well as under its livestock policies is retained by the company without reinsurance. In view of the company's volume of business and its very substantial surplus now well past the million mark, these retentions of liability on the part of the company seem not only well justified, but in fact conservative.



